

2-3 EDWARD VII.

SESSIONAL PAPER No 29c

A. 1903

SUPPLEMENTARY REPORT

OF THE

AUDITOR GENERAL

ON THE

Findings of the Martineau Commissioners

PRINTED BY ORDER OF PARLIAMENT



OTTAWA

PRINTED BY S. E. DAWSON, PRINTER TO THE KING'S MOST
EXCELLENT MAJESTY

1903

No. 29c—1903.

Сборник памятников

западно-европейской

литературы (сборник из 200000

страниц)

Издательство Академии наук СССР
1958

SUPPLEMENTARY REPORT

OF THE

AUDITOR GENERAL

ON THE

FINDINGS OF THE MARTINEAU COMMISSIONERS

AUDITOR GENERAL'S OFFICE, CANADA,
OTTAWA, August 4, 1903.

I have the honour to submit to Parliament as a supplementary report a short statement on the Martineau Commissioners' Report.

Sketch of Government Banking.

The Martineau case will be made clearer by a brief explanation of Government banking.

Payments to the Government, no matter where made or on what account, are never paid out in the form in which they come in, but instead are deposited to the credit of the country in some bank, to the Receiver General's account. There is in the Bank of Montreal, generally, at least two millions of dollars to the credit of the Government, on which no interest is paid, although the Bank of Montreal treats it as its own funds and gets such profits from it as it does from any other deposits. The only way in which any part of the money can be drawn out, as the Audit Act fixes, is by a cheque signed by the Minister of Finance and the Auditor General, or others who have authority to act for them respectively. A cheque signed by one of them alone would receive no more recognition than a cheque signed by the first man you might meet on the street.

Payments for large sums are made by such cheques. These payments are to meet claims under contracts of all kinds, for railway subsidies, &c.

To further the convenience of the claimants and the departments, many payments, however, are made under letters-of-credit, the services dealt with having more of a fixed nature and being smaller in individual amount, though numerous. The forgeries of

2-3 EDWARD VII.. A. 1903

Martineau were on an account of this kind, viz.:—The Militia and Defence letter-of-credit account in the Bank of Montreal.

Under all letters-of-credit the cheques presented to the bank are paid from the bank's own money, the bank being reimbursed at the beginning of each month by a Receiver General's cheque, as described above, for letter-of-credit cheques drawn in the previous month. See section 30 of the Audit Act, so greatly misunderstood by the commissioners.

The list of letter-of-credit cheques drawn for the purpose of indicating to the Auditor General the amount of the Receiver General's cheque to be supplied to the bank, is prepared by the department, the Militia and Defence Department in this case.

Martineau's Forgeries not a Raid on the Treasury.

I was furnished by the deputy head and accountant of the Militia Department with the list of the genuine cheques drawn, the cheques forged by Martineau forming no part of it. The commissioners believe that they were forged cheques, not stolen ones, see page 6. The bank, therefore, was not reimbursed for any of the forged cheques, but only for the legitimate cheques, those for which the country received value. One can easily understand that Martineau having received the money on his forged cheques, did not feel called upon by any fine sense of duty, to endanger his valuable person in drawing unnecessary attention to the occupation through which he has obtained so much notoriety. Inserting his forged instruments in such a list, so as to have the bank repaid, did not appeal to him. As a matter of fact, then, let me repeat that the Bank of Montreal was not recouped to the extent of a single dollar for any of the forgeries, and that, therefore, the bank's own funds are still reduced to the full amount of the \$75,000. The commissioners are entirely mistaken in this essential point. What they suppose is shown, inferentially, by the pains which are taken to point out that the Audit Office has neglected its duty in connection with getting of cheques from departments, &c., presuming that the Government, whose interests I am employed to guard, has suffered and not the Bank of Montreal to which I owe no responsibility. Then this opinion is shown directly at the bottom of page 6:—"Martineau became bolder and bolder until large sums were abstracted without disguise from the Treasury." Not so; they should have said from the Bank of Montreal.

The Audit Office never, within my recollection, passed a forged cheque or assisted in paying for one.

Then in the same connection 'the Commissioners find that the Audit Office did not, until after the time of Martineau's defalcation, require from the departments the bank statements.' There is not a word in the 30th section of the Act, nor in any other part of the Act, indicating that the Audit Office is to require from the departments the bank statements, and there never was the slightest prospect even, of a claim on the part of a bank until now.

Duties of the Audit Office in connection with the Martineau Case.

We feel in this office, that we perform a fairly arduous duty when we succeed in saving the Government from loss in the line in which we are employed, without devot-

SESSIONAL PAPER No 29c

ing a large part of our time to protecting the Bank of Montreal, or any other body or individual.

The Commissioners say at the bottom of page 7 'these abstracts do not seem to have been taken into account by the Audit Office.' They were taken very much into account by the Audit Office to settle each year's account with the bank. If the bank had not accepted a forged letter of Martineau purporting to come from the accountant of the Militia Department, as shown on page 8 of the report, the use made by the Audit Office of that statement would have ended the losses of the bank when they had reached \$20,000 only, instead of \$75,000. The bank had no right to have accepted such a letter from the accountant if it had been genuine, not even if it had been signed by the deputy head of the Militia Department. It should certainly have been sanctioned by this office before any change was made.

Curiously enough in quoting a part of section 30 (page 7-3) 'a duplicate of the statement together with the cheques to be rendered to the Auditor General' the words 'and the duplicate to the Minister of Finance and Receiver General' were omitted, although they followed immediately after. It would not have been difficult to have assigned some responsibility to Mr. Courtney, one of the Martineau Commissioners, for the acceptance of the forgeries, if the same style of reasoning had been followed in his case as had been applied to the Audit Office.

Then the statements referred to, have been used in the Audit Office, to compare the money paid to the banks with the accounts furnished to the Government for goods supplied and of which we give full details in our annual report. Besides, by means of these statements we have been enabled to call on the banks for over \$40,000 within the last twenty years, cheques for which we had repaid the bank, but which were never presented to the bank.

What will Affect the Bank Suit on Martineau Forgeries.

I am not arguing whether success, in the event of an action being instituted by the bank, would rest with the bank or the Government, but I do say that the Audit Office has performed its full duty as described in the Audit Act, that the Government funds have not gone out except where value has been given for them, so far as we could control the matter.

No repayment application for the forged cheques will be passed by the Audit Office, until an amount to cover them has been passed by parliament or, until a verdict against the Government by the court has been given.

It may be that in a suit, entered by the Bank of Montreal against the Government, a verdict would be obtained by the bank, on account of some act of the Militia Department. I express no opinion on the law, not even on the facts. There is no need of my discussing the subject closely so far as the question between the bank and the Government is concerned; but this is quite evident that, unless some act of the Militia Department should affect the case, the bank must continue to be out of the money as it is now.

Advice of Commissioners on dealing with Cheques after they are returned from the Bank.

The Commission has advised (see page 11) a method of dealing with the cheques as they come from the bank; but the method is quite antagonistic to that described in section 30 of the Audit Act, inasmuch as it provides for the complete ignoring of the important functions to be discharged by the respective departments, to which letters-of-credit are entrusted. Under the recommended system the cheque would not be seen by the department from which it emanated, after going through the bank. I am happy to learn that the Treasury Board has amended an order based on this recommendation.

Remarks of Commission on the Performance by Audit Office of its General Duties.

I do not want any one to assume that I claim infallibility for the Audit Office, or that I personally check every statement presented to me. Men who are entrusted with the management of departments or general subjects in the Government of Canada have to superintend the transaction of affairs of too extensive a character, particularly lately, to permit of their doing more, generally, than to put each business into the hands of the person connected with the department who will do it in the speediest and most reliable manner. Therefore, I would suggest that in dealing with the responsibility for any weakness on the part of the Militia Department, which may in the end be shown to have existed in connection with this Martineau business, it be first determined whether the weakness was one which should have come before a higher official and whether if it was, it is fair to expect that it would not occur again owing to the experience, and therefore might reasonably be excused in this case.

At page 9, 'the Commissioners find that the auditing work of the Auditor General's office is admittedly always behind, and at certain periods of the year, during the preparation of the annual report, it falls very much in arrear.'

Do the Commissioners happen to know that there is no Audit Office in the world where there is so complete and thorough a report made? If there is any place where a report is brought out so quickly after the end of the period to which it refers, I should be glad to have it pointed out. I do not know of any such place although in some of the countries, notably Great Britain, the Auditor General is assisted by being permitted to present each part as it is ready, this apparently salutary provision being withheld by the parliament of Canada.

'The Commissioners find that a large portion of the staff of the Auditor General's office is employed during the first half of each fiscal year in compiling the material for his report, and during this time certain portions of the ordinary work are neglected.'

'The Commissioners believe that while the methods employed by the Auditor General's staff for the detection of errors and irregularities may have been effective heretofore they cannot be thoroughly satisfactory for the reason before stated. They are of opinion that an addition should be made to the staff in order that the preparation of the report may not interrupt those employees whose business it is to keep the audit up to date.'

SESSIONAL PAPER No 29c

The Audit Office would be glad to have it pointed out where the interests of Canada (I do not mean the interests of the Bank of Montreal or other bank) have suffered in any particular by the work entrusted to it having been delayed. We hope that the people of Canada will excuse us, if our critics can find nothing more serious against us than that we have not gone outside the interests of Canada in our efforts and that we have not piled up additional salaries for them to pay. Perhaps the Commissioners would deign to tell us where we could have placed the additional employees if we had them. If the Commissioners had followed the Audit Office in all its efforts to obtain reasonable accommodation for its existing staff, they would probably come to the conclusion that our places are not sinecures, if this might be taken as a fair sample of our general duties.

I take exception to the use of the word 'neglected.' Is there any well conducted private establishment or public company which is provided with such a staff as to enable it to dispose of every piece of its work when first sighted?

Amendments to the Audit Act urgently required.

I have always complained that the Audit Act was not brought up to our present practice and requirements.

I must look to that Act as my guide and protection whatever part of my duties is under consideration. I went to great pains, with the valuable assistance of Z. A. Lash, K.C., to prepare amendments and had them inserted in the Audit report of 1897-8 without succeeding in attracting the attention of any of our legislators to them.

It seems to me that a very simple amendment to section 30 would enable the banks on which credits are drawn to protect themselves from forgeries, instead of depending on the Government to do so. I refer to a provision for the preparation in triplicate of the statement by the department of cheques drawn so that a second copy would be sent to the Auditor General, he to forward it with the reimbursing cheque to the bank. I would, however, further suggest that provision be also made in the 30th section that the vouchers be forwarded to the Auditor General with the statement of cheques drawn, so that the chances of fraud in regard to cheques, whether the attempt should be made on the Government or the banks, be further minimized of if the Martineau class or of any other class.

Amendment to meet forgeries of the Martineau class or others so as to prevent their falling on the Government even remotely.

I am advised that if such amendment were made (whatever is now the effect of statements made by the drawing department to the bank) with reference to the state of a letter-of-credit account at that time, such a statement would after the passage of the proposed amendment be properly looked upon only as the friendly assistance of one of two intertraders to the other; the latter having been already fully provided by the other with the means of determining for himself, without any outside assistance the correctness of his accounts.

J. L. McDougall, A.G.

